



Finance and Economics Discussion Series: Learning Dynamics with Private and Public Signals

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Finance and Economics Discussion Series: Learning Dynamics with Private and Public Signals

By Adam Copeland

Bibliogov, United States, 2013. Paperback. Book Condition: New. 246 x 189 mm. Language: English . Brand New Book ***** Print on Demand *****. This paper studies the evolution of firms beliefs in a dynamic model of technology adoption. Firms play a simple variant of the classic two-armed bandit problem, where one arm represents a known, deterministic production technology and the other arm an unknown, stochastic technology. Firms learn about the unknown technology by observing both private and public signals. I find that because of the externality associated with the public signal, the evolution of beliefs under a market equilibrium can differ significantly from that under a planner. In particular, firms experiment earlier under the planner than they do under the market equilibrium and thus firms under the planner generate more information at the start of the model. This intertemporal effect brings about the unusual result that, on a per period basis, there exist cases where firms in a market equilibrium over-experiment relative to the planner in the latter periods of the model.



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